



ADDRESS OF THE DEWAN

TO THE
MYSORE REPRESENTATIVE ASSEMBLY
(BIRTHDAY SESSION)

8th June 1922.

GENTLEMEN,

By command of His Highness the Maharaja, I have great pleasure in welcoming you to this supplementary session of the Representative Assembly which is the sixth of its kind since His Highness was pleased to grant you the privilege of meeting a second time during the year, for the purpose of discussing the State's finances.

2. Before I proceed to deliver the usual Address explaining the general financial position and the budget proposals for the next official year, allow me to take this opportunity of my first meeting the members of this Assembly in the capacity of the Dewan of Mysore to say how greatly I value the privilege of presiding over its deliberations. I had this honour three years ago while officiating as Dewan in 1919 during the unfortunate illness of my immediate predecessor Rajasevadhurina Sir M. Kantaraj Urs who held the office with distinction during the past three years. You are aware that ever since my association with the Government of His Highness the Maharaja, I have been greatly interested in the growth and the progress of this Assembly and watched with pleasure its development. It is therefore with no small pride that I stand before you to-day as a successor to my illustrious predecessors, to perform the pleasing duty of welcoming you to this session which, I venture to say, will in many respects be a notable one, for the problems that will be placed before you for

discussion and solution are of the greatest significance not only in respect of the next year, concerning which you have the usual financial statements put before you for consideration, but also for many years to come, during which a steady and persistent policy of sound financial administration has to be pursued to restore stability and equilibrium in the State's finances. I have no doubt that in dealing with these intricate problems, which I shall endeavour to explain to you at some length without any reservation, you will bring to bear on the discussions your usual sobriety of judgment and moderation, and render substantial help to Government in finding a satisfactory solution.

The Need for Balanced Budgets.

3. You will not expect me in my present Address to deal with matters of general administration which will be reserved as usual for the Dasara session. The problem of finance transcends all other problems in these times of general dislocation of international exchange, trade and commerce, and of labour troubles, strikes, disputes and general industrial unrest in every country in the world. Here in Mysore we have felt the shock of these disturbances like the rest of India and have besides to contend against other local factors to be explained later, which have also contributed to undermine our financial position. The problem, here as elsewhere is how to balance the budget. Almost every country in the world and every province in British India is suffering from excess of expenditure over revenue in a very large measure due to the aftermath of the War, the economic effects of which have gained considerable momentum during these past few years of so-called reconstruction. The situation is due not to any one cause but to the cumulative effect of several factors, the chief of which may be summed up in high prices, increased cost of living, unstable exchange and inflated currency together with a shrinkage of revenue in certain directions. The general unstable nature of the world's finances has become so prominent a factor in the administration of every country that international conferences in Europe have been repeatedly urging the fundamental principle of balanced budgets. The Brussels Committee of financial experts which met, under the auspices of the League of Nations in 1920, passed a resolution under the heading "Imperative Requirements" as follows :—

"The country which accepts the policy of budget

deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great. It is imperative that every Government should, as a first social and financial reform on which others depend

(a) restrict its ordinary expenditure including the service of the debt to such an amount as can be covered by its ordinary revenue;

(b) abandon all unproductive extraordinary expenditure;

(c) restrict even productive extraordinary expenditure to the lowest possible amount."

They added that Governments whose finances have been badly disorganised are advised to immediately balance their budgets, and not to allow loan funds to be employed for meeting the cost of current requirements, there being absolutely no justification for permitting deficits for the purposes of ordinary administration.

Recently, one of the resolutions of the Finance Commission of the Genoa Conference at which, Sir Robert Horne presided, states "that so long as there is deficiency in the annual budget of the State which is met by the creation of fiduciary or bank credits, no currency reform is possible and no approach to the establishment of the gold standard can be made. The most important reform of all must therefore be the balancing of the annual expenditure of the State without the creation of fresh credits unrepresented by new assets."

Financial Review and Forecast in 1919.

5. When addressing this Assembly in 1919, I made a rapid survey of the growth of revenue and expenditure for ten years commencing from 1908-09 and after quoting the opinion of Mr. Datta, the Special Financial Adviser who had then left, I sounded a note of warning and promised a general forecast of the financial position for the next five years with a review of the finances of the preceding ten years. At the time, I stated that although our finances were in a prosperous condition, our resources required watching, and further additional expenditure from the revenue account, a more detailed scrutiny. You are aware that in accordance with the assurance then given, a Decennial Review and Quinquennial Forecast of the financial position was published on the 5th September 1919. This review disclosed a recurring deficit of Rs. 15½ lakhs per annum in the financial position of the State and

CLASSIFIED ABSTRACT OF RECEIPTS AND EXPENDITURE (1901-02 to 1921-22).

(Figures in lakhs.)

	Sir P. N. Krishnamurti		Mr. V. P. Madhava Rao		Mr. T. Ananda Rao		Sir M. Visvesvaraya		Sir M. Kantaraj Urs	
	First year 1901-02	Last year 1905-06	First year 1906-07	Last year 1908-09	First year 1909-10	Last year 1911-12	First year 1912-13	Last year 1918-19	First year 1919-20	Last year 1921-22
REVENUE.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Normal Revenue ...	1,69	1,72	1,76	1,66	1,82	1,83	1,91	2,23	2,45	2,50
Uncertain Revenue and receipts of capital na- ture ...	16	18	16	16	16	19	31	25	29	15
Revenue from Financial investments and pro- ductive works ...	1	25	26	15	22	23	33	47	39	41
Total ...	1,86	2,15	2,18	1,97	2,20	2,30	2,55	2,95	3,13	3,06
EXPENDITURE.										
Service Expenditure ...	1,74	1,96	1,91	1,90	1,87	1,95	1,94	2,85	3,07	2,91
Charges against Mining Revenue ...	...	1	1	1	2	2	2	2	2	2
Interest on Loans and Sinking Fund ...	4	2	3	3	5	5	6	11	15	44
Total ...	1,78	2,00	1,95	1,94	1,94	2,02	2,02	2,98	3,24	3,37
Surplus + or deficit—...	+8	+15	+23	+3	+26	+28	+53	-3	-11	-31

8. I would like to explain in a few words the broad features of the finances of these two decades. The total assets of the State when Sir Seshadri Iyer relinquished office in the early part of 1901 were valued at Rs. 468 lakhs of which Rs. 218 lakhs were in the form of cash and investments and Rs. 250 lakhs in the shape of Capital Works including Rs. 229 lakhs invested on the Mysore Railways. The total liabilities of the State amounted to Rs. 259 lakhs of which it is only important to notice the Sterling Loan of Rs. 161 lakhs and the Rupee Railway Loan of Rs. 20 lakhs. Arrangements had already been made by the Dewan for the automatic repayment of the Rupee Loan, as well as of the Sterling Loan, should it be decided to repay the latter in 1936. The excess of assets over liabilities in 1901 was Rs. 209 lakhs.

Period of Surpluses.

9. The annual revenues of the State during the period of Sir P. N. Krishnamurti's administration gradually rose from Rs. 186 lakhs in 1901-02 to Rs. 215 lakhs in 1905-06, and the expenditure chargeable to revenue, from Rs. 178 lakhs to Rs. 200 lakhs. The total amount of revenue surpluses realised by the State during this administration was Rs. 53 lakhs and the total capital outlay was Rs. 68 lakhs of which nearly Rs. 50 lakhs were incurred on electrical works including the second installation of the Cauvery Power Scheme and about Rs. 12 lakhs on the Gold Fields Water Supply. The total assets of the State had increased, when the Dewan relinquished office, to Rs. 570 lakhs and the excess of assets over liabilities was Rs. 268 lakhs. The Railway Loan of 1882 was paid up during this administration.

10. The first two years of Mr. Madhava Rao's administration witnessed the continuance of the prosperity enjoyed during the previous regime, the revenue in 1907-08 being Rs. 225 lakhs, the highest till then realised. In 1908-09, however, a serious distress reduced the Land Revenue collections from Rs. 102 lakhs to Rs. 87 lakhs and there was also a decrease of Rs. 4 lakhs in the revenue under Forest. The total revenues of the year had shrunk to Rs. 197 lakhs, a decrease of Rs. 28 lakhs as compared to the previous year. The total expenditure, however, during this period never exceeded the revenues and even in 1908-09 a small surplus of Rs. 3 lakhs was obtained. The Supari Halat was abolished in 1907-08 involving

a sacrifice of Rs. 3½ lakhs of revenue. The third installation of the Cauvery Power Scheme was financed during this period with the aid of a 4 per cent loan obtained from the conversion of the Savings Bank balances into a funded debt. Provision for a sinking fund to repay this debt was also made. The distress proved the wisdom of the measure adopted by the Government in their Order dated the 16th February 1907, directing the formation of a famine reserve to which it was proposed to credit Rs. 2 lakhs per annum. The excess of assets over liabilities when Mr. Madhava Rao relinquished office was Rs. 336 lakhs.

11. The fall in the revenue in 1908-09 also emphasised the need for a Financial Settlement by which embarrassment in years of scarcity may be avoided by a prudent management of the finances under a carefully thought out programme. The elements of such a settlement were first elaborated by Rai Bahadur N. G. Basu in his Report on Mysore Finances in August 1905. Mr. Basu had suggested that the expenditure on administration should be restricted to 55 per cent of the normal revenue collections exclusive of a grant of about Rs. 5 lakhs towards "Improvement of Municipalities." He also recommended the formation of various reserves aggregating about Rs. 21 lakhs out of the proceeds of the Gold Mining Royalty and suggested that the Cauvery Power Scheme revenues should be utilised towards supplementing the depleted cash balances. In 1908-09 Mr. Chakravarti reviewed the financial position in detail, and argued that it disclosed a deficit of about Rs. 5 lakhs per annum if provision were made for all the needful reserves estimated to amount to Rs. 11 lakhs exclusive of the depreciation fund necessary in connection with the Cauvery Power Works. The actual position was somewhat better and the note of alarm then sounded was apparently forgotten in later years as the set back in the revenues experienced in 1908-09 proved only temporary, and the succeeding years started an era of large and continuous surpluses.

12. The total revenues during the period of Mr. Ananda Rao's administration increased from Rs. 220 lakhs in 1909-10 to Rs. 230 lakhs in 1911-12, while the expenditure rose from Rs. 194 to Rs. 202 lakhs. The total amount of the revenue surpluses realised during the three years was Rs. 83 lakhs and the total expenditure on capital outlay was Rs. 18 lakhs of which Rs. 7 lakhs were spent on the Krishnarajasagara Works initiated in the last year of the administration.

13. When Sir M. Visvesvaraya was appointed Dewan the assets and liabilities of the State were Rs. 795 lakhs and Rs. 362 lakhs respectively. During the six years he was in charge of the administration, the revenues ranged between Rs. 255 and Rs. 315 lakhs. The Excise revenue showed a progressive increase from Rs. 47 lakhs in 1912-13 to Rs. 67 lakhs in 1918-19. Although the Forest revenue did not show progressive development, it was much higher than the average of the previous years in consequence of the enhanced prices realised in the sandalwood auctions, and later on, by the establishment of the Sandal Oil Factory. This revenue stood at Rs. 33 lakhs in 1912-13, dropped to Rs. 23 lakhs in 1914-15, rose again to Rs. 45 lakhs in 1916-17 and dropped to Rs. 32 lakhs in 1918-19. The net revenue under Railways increased from Rs. 9 lakhs to Rs. 15 lakhs in consequence of the increase in traffic and the reduced expenditure on renewals and replacements. A total amount of Rs. 58 lakhs was received from the British Government under Assigned Tract Revenue during this administration.

The expenditure of the State increased progressively from Rs. 202 lakhs in 1912-13 to Rs. 298 lakhs in 1918-19. In spite of these heavy increases in expenditure, large annual surpluses were realised up to the end of 1917-18, the largest being Rs. 82 lakhs in 1913-14 when Rs. 30 lakhs were received on account of arrears of Assigned Tract Revenue. The total amount of the revenue surpluses realised during this administration was Rs. 321 lakhs. In addition to the large growth in revenue expenditure, heavy charges outside the revenue account were incurred on account of the State's contributions towards the War amounting to Rs. 72 lakhs, not to speak of the substantial loss of nearly Rs. 48 lakhs sustained by the realisation of the invested securities to finance capital works.

The total capital outlay incurred during the period was Rs. 328 lakhs.

14. In the year 1917, Mr. Datta who had been summoned to advise the State in regard to its finances, prepared a scheme of Financial Settlement. He estimated that the normal surplus of the State was about Rs. 50 lakhs per annum, and recommended the institution of various reserves and a programme of courageous expenditure on measures for the material and moral improvement of the people, and for ameliorating the condition of subordinate officials in

the various departments of Government. A scheme of departmental settlements was also proposed under which a fixed allotment together with a defined proportion of the annual growth of revenue was allotted to each department. Mr. Datta however questioned the tremendous growth of expenditure chargeable to revenue. Government accepted his scheme of Financial Settlement which was brought into effect from the year 1917-18 and the scheme of providing for the reserves was introduced from 1916-17.

As regards capital expenditure Government decided in their Order Fl. 21503—G.F. 1861-5-5, dated the 24th October 1918 to incur a normal capital outlay of about Rs. 70 lakhs per annum of which Rs. 40 lakhs were to be spent from the balances at the credit of reserve funds and Rs. 30 lakhs from loans.

Deficit Years.

15. The year 1918-19, marked the beginning of the period of deterioration in the finances of the State. The revenue declined from Rs. 315 to Rs. 295 lakhs, and it was found impossible to adjust the expenditure to the revenues in consequence of a defect in the application of the scheme of Financial Settlement which had led to the growth of recurring expenditure against non-recurring accumulated balances at the credit of departments, and in excess of the rate prescribed in the Settlement. In spite of the fact that the revenues of the year were Rs. 65 lakhs in excess of those realised only six years before, the year's transactions resulted in a deficit of Rs. 3 lakhs.

16. This deficit went on increasing in the succeeding administration of Sir M. Kantaraj Urs in consequence of the shrinkage in the revenues due to the rise in exchange and the slump in the sandalwood oil market, and of increases in expenditure owing to the grant of high price allowances to subordinate officials, and the rise in the cost of administration in general. Another potent cause for increase in expenditure was the rise in interest charges due to the two loans floated during this administration for financing the capital works in progress. Mr. Datta had calculated that the total loss on account of payment of interest on borrowed capital for financing capital works would not be more than Rs. 13.20 lakhs in any year and would be limited to a total of Rs. 46 lakhs in five years. He had therefore provided in his scheme

for an annual reserve of Rs. 9 lakhs towards the payment of interest on capital expenditure, during the period that must elapse before the capital works would begin to yield an adequate return. Unfortunately, it was not possible to make any grant whatsoever for this and other reserves including the famine reserve during the past three years. The deficit during the last administration increased from Rs. 11 lakhs in 1919-20 to Rs. 31 lakhs in 1921-22 and it had to be met partly from previous departmental balances and partly from the proceeds of loans. The total amount of new loans floated during the last administration was Rs. 335 lakhs excluding conversions of previous loans. The net assets and liabilities of the State on July 1st 1922 will stand as follows:—

Assets	Rs. 1,505 lakhs.
Liabilities	Rs. 933 „

Appointment of Special Finance Committee.

17. From what has been stated before, it must be clear that some remedial measures are immediately called for to prevent the further deterioration of the financial position of the State. The Government of His Highness the Maharaja fully realising the gravity of the situation, appointed in January last, a strong committee consisting of four non-officials and two officials, and presided over by Rajasabhabhushana Diwan Bahadur K. P. Puttanna Chetty, C.I.E., with definite terms of reference as follows:—

(a) Reviewing the State's finances for the past five years with a view to ascertain the causes of the deficit in the revenue position;

(b) formulating proposals for wiping out the deficit and restoring financial equilibrium,

(i) by retrenchment and economy of expenditure without impairing the efficiency of essential services, and

(ii) by improvement of revenue resources including enhanced additional taxation, if found unavoidable;

(c) preparing a forecast of revenue and expenditure for the next three years so as to result in a balanced budget after providing for the necessary financial reserves, such as Famine Reserve and Sinking Funds for loans, as well as for renewals and replacements on the State Railways;

(d) preparing a forecast of capital demands under all heads for the next three years with reference to the resources (including loans) that may be counted upon; and

(e) examining past policy in regard to Public Debt, Investments and Ways and Means operations including the utilisation of Reserve and Depreciation Funds, and suggesting changes if considered necessary.

18. The *ad interim* report of the Special Finance Committee is before you to-day. The Committee are performing with great industry a searchlight operation on the whole administrative machinery of the State. They are not merely confining themselves to the question of retrenchment in expenditure but are also going into the questions of policy involved, which were expressly excluded in the terms of reference to the Geddes Committee on national expenditure in Great Britain. The terms of reference to the Inchcape Committee recently appointed by the Government of India also omit questions of policy as being left exclusively to the consideration of Government.

Special Finance Committee's Conclusions.

19. Our Committee in reviewing the five years' finances, have arrived at certain conclusions as to the causes which have rendered the State's financial position unsound. These are summarised as follows:—

(i) Sufficient attention was not paid to the development of certain permanent sources of revenue, such as Land Revenue and Stamps.

(ii) Want of due appreciation as between stable and unstable sources of revenue, in the matter of utilising them for permanent or recurring expenditure.

(iii) Utilisation of the entire receipts from Mining Royalty as an item of normal revenue.

(iv) Raising the standard of service expenditure disproportionate to the average level of ordinary revenue.

(v) The starting of new services and expansion of activities of old service departments, simultaneously on a large scale.

(vi) Undertaking construction of numerous large buildings and other works without reference to the money available for completing them.

(vii) Simultaneous undertaking of a number of large capital works without reference to the resources available for financing them.

(viii) Incurring heavy expenditure from loan funds on projects which have proved wholly unproductive or which yield only a small fraction of the expected return and the consequent loss of interest income and the creation

of unproductive debt, the service of which is a burden on ordinary revenues."

20. The Committee have prepared a statement showing that the total revenues do not suffice for meeting the present demands of service departments after providing for all obligatory expenditure, and presenting a serious position of recurring deficits in the annual budgets. They have come to the general conclusion that "steps have to be taken for reducing expenditure and improving revenue to the extent of Rs. 50 lakhs so as to restore the budget to a state of equilibrium."

Previous Discussions on Financial Policy.

21. The conclusions arrived at by the Special Committee cannot be considered to have come as a surprise to the Government. The case was stated somewhat differently by the Financial Secretary in his Review of the financial situation of the year ending June 1921, in which he reported to Government that in the preceding quinquennium the growth of normal revenue was only Rs. 28 lakhs while the increase in the standard of service expenditure was Rs. 79 lakhs. He pointed out that the shortage in the account "Normal Revenue—Service Expenditure" was met in the first two years of the quinquennium by drawing upon the surpluses in the accounts of (i) "Uncertain Revenue and Receipts of a Capital Nature" and (ii) "Financial Investments and Productive Works," and that in the succeeding three years, with the further growth of service expenditure, these surpluses became insufficient to meet the shortage and consequently the position on the whole was one of growing deficits from the year 1918-19.

22. The question of differentiating between stable and unstable sources of revenue was, as I have already remarked, raised so long ago as 1905 by Mr. Basu. In his proposals for a financial settlement he enunciated the following principles :—

(1) That all expenditure on administration should be met entirely out of the ordinary normal revenue;

(2) that the mining revenue should be wholly set apart for financial reserves, namely, famine reserve, railway capital reserve, and reserve for special non-recurring expenditure; and

(3) that the Cauvery Power revenue should be used entirely for building up the depleted cash balances, and for further outlay on new installations.

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(3) that the Cauvery Power revenue should be used entirely for building up the depleted cash balances and for further outlay on new installations.

These principles were, however, not kept in view, and in criticising the budget of 1908-09, Mr. Chakravarti in his Quinquennial Review made the following statement:—

“The ordinary expenditure on Civil Administration has been allowed to grow to such an extent, that even taking the whole of the mining revenues into account, we can make only admittedly inadequate provisions for extraordinary public works and hardly enough for city improvements, can lay by only the small sum of Rs. 2 lakhs for famine reserve, cannot make sufficient provision for necessary railway capital expenditure and are unable to keep anything at all for special non-recurring charges of large magnitude which we may be called upon to incur at any time.”

23. He then recommended the formation of a railway capital reserve of at least Rs. 4 lakhs a year to admit of a fixed policy of railway extensions being pursued systematically without upsetting our regular finances.* In another portion of his Review he stated: “Since 1901-02, the annual recurring expenditure has been allowed to increase at a rate out of all proportion to the growth of ordinary revenue.” He pointed out that “the unsatisfactory nature of the situation was masked by a surplus obtained by the omission to provide for adequate reserves absolutely necessary for the safety of the people and the progressive development of the State.”

Diagnosis of the Present Situation.

24. The true diagnosis of the situation, I think, is that owing to the general prosperous condition of the State and the steady increase in its revenues, there was a growing desire to expand the activities of Government, increase expenditure on measures for the improvement of the material and moral condition of the people, and to start large schemes and public works involving heavy capital outlay, somewhat in rapid succession with the object of increasing the wealth of the State and its general economic prosperity. In the zeal and eagerness to finance these schemes and projects, no provision could be made for reserves and the uncertain items of revenue as well as revenues received from capital works and investments have been made use of to meet the additional heavy liabilities undertaken under recurring expenditure. This could not perhaps be avoided owing to the heavy and

onerous programme of capital works to which the State had been committed, but the increase in expenditure as indicated by the inflated figures in recent years does not really and truly represent the exact degree of expansion in the administration of the State. For, the increased cost of living has necessitated the grant of relief to subordinate services to the extent of about Rs. 20 lakhs of additional expenditure per annum; the cost of the upkeep of the army and of materials and other necessities for the different service departments has gone up enormously and the cost of materials for works and wages of labour have also risen. Due allowance has to be made for these factors before we can correctly estimate the real increase in expenditure due to expansion in recent years. The fact remains, however, that we are now confronted with a position of recurring deficits, and it is necessary to evolve a sound financial policy which could be spread over a triennium or a quinquennium by which the deficits may gradually be wiped out and we may regain our former financial position. To indicate such a scheme of financial policy in some detail, it is necessary for me at this stage to explain to you the position as disclosed in the revised figures for the current year and the budget estimates of next year.

Revised Estimates, 1921-22.

25. In explaining the budget of the current year Sir M. Kantaraj Urs in addressing you last year stated that the budget had been balanced with a surplus of about half a lakh. He added that this result had been attained after providing for the charges on account of interest payable on the last loan and also on the newly proposed loan. The Sinking Fund requirements of the loans were to be met from the balance accumulated for that purpose. The only obligatory demand not provided for was the contribution to the Famine Insurance Fund, as regards which he hoped that with the restoration of the surplus revenues of the Assigned Tract and the anticipated improvement in the income of the Sandal Oil Factories it would be possible to pay both the current and arrear contributions. The budget was framed with the object of keeping the expenditure within the revenue, and anticipated a total revenue of Rs. 306½ lakhs and a total expenditure of Rs. 305½ lakhs. The revised estimate shows that while the anticipations in regard to revenue will on the whole be fully realised, the expenditure chargeable to revenue will exceed the budget expectations by about Rs. 17½ lakhs. The variations under the different

heads of revenue and expenditure are explained in the Memorandum attached to the budget estimates, and I shall allude here only to the more important of the causes which have contributed to the deficit of about Rs. 16½ lakhs.

26. The budget programme of capital works was estimated to cost about Rs. 108 lakhs and it was proposed to raise a loan of one crore of rupees for meeting this demand. In view, however, of the needs of these works and of the desirability of completing the works as early as possible so as to enable them to earn revenue at a very early date, it was subsequently decided to raise the amount of the loan to two crores involving a larger expenditure under interest charges than what was included in the budget estimates. The budget did not also provide any grant for the charges connected with the visit of His Royal Highness the Prince of Wales. These are the two main causes of excess expenditure. There were also minor excesses under Army, Stationery and Printing, Pensions and Allowances, Agriculture and other heads as explained in detail in the Memorandum. So the net expenditure charged to revenue in the revised estimate comes to Rs. 323 lakhs as against a budget grant of Rs. 305·61 lakhs.

Budget Estimates, 1922-23.

27. The budget estimates for the coming year anticipate a total revenue of about Rs. 310½ lakhs and a total expenditure of about Rs. 331½ lakhs resulting in a deficit of nearly Rs. 21 lakhs. I shall first explain the noticeable features of the revenue and expenditure estimates before considering the policy to be followed for wiping out this deficit, and for securing a sufficient margin for improvement of administration. Under the principal heads of revenue, Forest shows an improvement of Rs. 6 lakhs and Excise a decline of Rs. 4½ lakhs. The revenue from sandalwood in the current year is comparatively low owing to reduced demand for sandal oil. The market for oil has shown signs of revival in the past few months and a revenue of Rs. 10 lakhs from the Sandal Oil Factories is expected in the next year as against Rs. 7½ lakhs in the current year. It is also proposed to take measures for a more rapid exploitation of timber from our forests with a view to augment the revenue of the Forest Department. Excise revenue has recently shown a tendency to decline owing to the decreased consumption of arrack and the reduced bids for shops offered in the recent sales, which accounts for the com-

paratively lower level of estimate adopted in the budget. The premium on gold is declining, and the estimate of revenue from Royalty on gold for next year is accordingly less than the amount expected to be realised in the current year. The net receipts from Railways are expected to be about Rs. 1½ lakhs better than the revised estimate of the current year due to the increased scale of rates and fares, and the general improvement expected to be shown in the traffic receipts owing to the provision of additional rolling stock. The revenue from Krishnarajasagara and the Electric Works is taken at Rs. 3½ lakhs more than in the current year owing to a larger quantity of power expected to be taken up by the mines and other consumers, rendered possible by the sixth installation scheme which came into operation last month.

28. On the expenditure side, attempts have been made to reduce the level of charges wherever possible, and it will be seen, by a comparison of the budget estimate for the next year with the revised for the current, that there are reductions under the heads Excise, General Administration, Scientific and Miscellaneous Departments, Stationery and Printing, Miscellaneous, Courts of Law, Police, Public Works, Economic Conference, Education, Agriculture, Industries and Commerce, Grants for Public Improvements and Army. The effect of the retrenchments and economies already made will be evident from a comparison of the figures of total expenditure for the current year and the next year, without deducting from them the expenditure met from balances at the credit of departments and reserve funds. Including Rs. 22 lakhs for Interest and Sinking Fund charges, the total expenditure in the current year is Rs. 337½ lakhs, while in the next year including Rs. 43 lakhs on the same account, the total expenditure is Rs. 332½ lakhs. The real reduction is thus Rs. 16½ lakhs.

29. It is necessary, in this connection, to explain the entry of Rs. 16½ lakhs under Extraordinary Revenue (at page viii of the budget estimates of the year). The surplus revenue of the Assigned Tract which, after the settlement of the question in 1912, was being paid to the State regularly according to the *proforma* accounts has, under the orders of the Secretary of State, been withheld for the three years, 1918-19, 1919-20, and 1920-21 and the total accumulated surpluses which the State should have got but for these orders amount now to about Rs. 35 lakhs. As a result of the negotiations that are proceeding in the matter,

we expect to get a sum of Rs. 10 lakhs almost immediately on account of the arrears without prejudice to the settlement of the general question, regarding which His Highness' Government have made a representation to the Government of India, and have every hope that there will soon be a just and equitable decision. The additional Rs. 6½ lakhs represent the estimated surplus revenue for the year 1921-22 which is payable, under the existing arrangement, in the budget year. The State received on account of the Assigned Tract Revenue a sum of Rs. 30 lakhs in 1913-14, Rs. 9 lakhs in 1914-15, Rs. 10 lakhs in 1916-17, and Rs. 9 lakhs in 1918-19, and there have been no receipts subsequently. The receipts under this head have been irregular and fluctuating, but have been taken credit for in the budget for ordinary expenditure. The arrears constitute a non-repeating item, which should be kept in reserve for Special Charges. But at the present moment, as we have a very heavy demand on account of Sinking Fund and Interest Charges under the loans for which it is impossible to make full provision from the normal resources of the State, it is proposed to utilise the receipts under this head next year on account of Sinking Funds and thereby reduce the actual deficit to about Rs. 4½ lakhs.

The Present Position.

30. I wish however to emphasize the fact that a deficit of about Rs. 21 lakhs as shown in the budget represents the real situation, taking into account a fairly liberal estimate of revenue under some of the principal heads of revenue and a very restricted scale of expenditure in the various departments of administration. For instance, under Public Works the normal average expenditure including Irrigation charged to Revenue during the past several years, has been over Rs. 30 lakhs; and in the Forecast published in September 1919, the standard was fixed at Rs. 32 lakhs. The provision, therefore, made in the budget of a total of Rs. 24½ lakhs under both may be considered as totally inadequate to meet the requirements of the State. Under Civil Administration there is a decrease of nearly Rs. 6½ lakhs as compared with the accounts of 1920-21, and the revised estimate of the current year, while under Moral and Material Development there is a decrease of Rs. 11½ lakhs as compared to the accounts of 1920-21 and of Rs. 3½ lakhs as compared to the revised estimates of the current year. The Grants for Public Improvements have also been considerably cut

down. The scale of expenditure provided for in the budget estimates of next year is in many respects below the standard of efficiency required to keep the administration up to its present level. From the *ad interim* report of the Special Finance Committee you will have noticed that that Committee has recommended retrenchments in the various departments of the State to the total extent of about Rs. 30 lakhs. If we take the total gross expenditure of the State at Rs. 344 lakhs, the figure at which it stood in 1920-21, a year in which there was no expenditure incurred under extraordinary items, and compare it with the provision of Rs. 332 lakhs in the next year's budget it will be seen that, making allowance for the Interest and Sinking Fund charges of Rs. 10 lakhs in 1920-21 and of Rs. 43 lakhs in 1922-23, reductions and retrenchments have been effected already to the extent of about Rs. 45 lakhs, out of which Rs. 28½ lakhs represent the retrenchment effected in 1921-22. How far any further reductions and retrenchments are possible is a difficult question, but Government are now dealing with the several recommendations of the Committee and without anticipating the decision of Government, I may venture to say that if the total of such further reductions can be brought to about Rs. 7 lakhs the utmost that can possibly be done in this direction would have been achieved. Such further retrenchments cannot be effected without impairing efficiency but the present exigencies of our finance may even demand such sacrifice. It is necessary not to over-estimate the improvement that may be effected in our financial position by retrenchments only. We have to improve our normal resources also. We have besides to introduce a system of sound distribution of our revenues so as to make provision for bad times and special expenditure. And lastly and chiefly, we have to separate and reclassify our resources which till now have all been put in the pool from which we have helped ourselves liberally in the past according to the circumstances and needs of each year.

Extent of Improvement Required.

31. If, therefore, the deficit of Rs. 21 lakhs, as shown in the budget estimates, correctly represents our financial position without taking into account certain well-recognised reserves and if provision is duly to be made in future years for them, we should have to add to the Rs. 21 lakhs another sum of Rs. 35 lakhs as shown

	Rs.	in the margin which
Mining Capitalisation Fund	11 lakhs.	means that there should
Famine Insurance ...	5 "	be an improvement to the
Irrigation Capital Reserve	13½ "	extent of Rs. 56 lakhs a
Industrial Development Fund ...	1½ "	year in the finances of the
Special Reserve for non-recurring expenditure...	3½ "	State and I shall now
Margin for additional expenditure ...	½ "	explain in some detail the
		manner in which an attempt may be made to

bring about such a result.

Classification of Resources and Expenditure.

32. For a proper appreciation of the exact condition of our finances, it is necessary to classify the different kinds of resources and to provide for all reasonable demands against each. I think that our finances can be broadly classified under three groups. Under the first group may be included all items of ordinary revenue and of the normal service expenditure. The annual contributions to such of the reserves as are required for stabilising the normal financial administration should legitimately come out of the resources of this part. Items of revenue which are only occasionally received, or which represent the value of the assets of the State, should be brought under a separate category and not mixed up with the normal revenues of the State. Uncertain revenue should properly be used either for some non-recurring charges of the administration or for capital expenditure; and as for any revenue realised as the value of an asset parted with, for example, the Royalty received for the gold removed from the Kolar Mines, it can only be used for building up another revenue-yielding property. This is indeed no new principle, having been emphasised by Mr. Basu many years ago and again in 1916-17 when the reserve for the capitalisation of mining revenue was started under Mr. Datta's Financial Settlement. These would fall under group II. Then, again, the revenue transactions of productive works should be grouped under a separate class and not clubbed with those of the ordinary administration, it being the aim of the Government to follow the programme for the execution of these works in such a manner that their revenues meet not only the Interest and Sinking Fund charges for any loans contracted in their behalf but also make allowance for future expenditure on account of renewals, expansion and development. These with the interest on investments would

constitute group III. I think that owing to the mixing up of all sources of revenue, and the utilisation of uncertain revenues and the handsome returns from the successful capital undertakings of the State in the past for expenditure under the service heads, our finances have seriously suffered in stability and such expenditure has increased at a rate beyond the growth of normal revenues. Mysore, however, is not the only administration that has followed this method. The Government of India itself has all along continued to club the transactions connected with the State Railways with the finances of the Central Government. The Acworth Committee appointed by the Secretary of State for enquiring into the working of the Indian Railways strongly recommended the separation of Railway finance from general finance, but the Railway Finance Committee considered that this measure of separation could not be given effect to immediately without serious dislocation as it involved the surrender by the Central Government of the net gain from Railways. Our position in respect of productive works is more complex than that of the Government of India as we have not only Railways but other classes of productive assets and commercial concerns such as Hydro-Electric Works, the Krishnarajasagara Works, the Bhadravati Iron Scheme, and other Industrial concerns. Past experience as well as our present financial position clearly indicates the imperative need for the separation of the finances of productive works from the ordinary revenue account; and, in my judgment, the sooner this separation is effected the better it will be for the future stability of Mysore finances.

33. It is, in my opinion, necessary therefore to give the group of productive works financial autonomy and make the normal revenues of the State support the normal administration. The existing arrangement under which the transactions of the ordinary administration and those of productive works are clubbed together, is responsible for much of the unsoundness of our present position. The net receipts of productive works, the bulk of which should be devoted to the maintenance in an efficient condition of the capital of such works, or applied to their extension or improvement, have been allowed in the past to be absorbed by the service departments. If under such an arrangement the net revenues of productive works decline owing to their being handicapped by a reduction in their revenue-earning capacity, the position of the administration becomes extremely embarrassing. If, however, the productive works,

after meeting from their net revenues all their demands including contributions to Sinking Funds and Interest for loans raised on their behalf can afford to contribute any share of their earnings for purposes of ordinary administration, there can be no objection to the utilisation of such non-tax revenues for easing the burden of taxation.

34. With a view to explain in actual figures how the scheme outlined above would work out, I have had a statement prepared to show the state of each part of the account of the State's finances for a period of seven years from 1916-17, which I now present before you.

35. Taking the budget estimates for 1922-23, it will be seen that the first part relating to the ordinary administration shows a deficit of Rs. 23 lakhs without providing for any of the reserves, contributions to which should form a charge upon the resources of this part. Part III also shows a deficit of Rs. 9 lakhs, that is, the revenue account of productive works, instead of being self-supporting or being in a position to afford any help to the General Administration, finds itself in a condition of having to lean upon Part I or Part II or both, if they should have any surpluses to spare. Part II shows a surplus of Rs. 11 lakhs, but this amount, instead of being available for financing capital works, is required for setting off partially the deficits of the two other parts amounting to 32 lakhs.

36. The results brought out in this statement show analytically and in the clearest possible manner what improvement is called for in each part of our public finance for rendering the total financial position of the State absolutely sound. The condition of Part I has to be improved by the double process of augmenting the resources and reducing the demands on them so that the total improvement may be sufficient not only for wiping out the existing deficit of Rs. 23 lakhs but also for making the required annual contributions to the Famine Insurance Fund and to the Special Reserve for non-recurring expenditure, which, between them, will require not less than Rs. 8½ lakhs per annum. Part III should be rendered capable of relying for all its needs on its own resources and also of contributing if possible something to the ordinary administration comprised under Part I. The revenues under Part III should, in fact, meet the total liabilities on account of Interest on Loans and Sinking Fund, and to provide for

SEVEN YEARS' FINANCES IN TRUE PERSPECTIVE.

(In Lakhs of Rupees).

	1916-17	1917-18	1918-19	1919-20	1920-21	Revised 1921-22	Budget 1922-23		1916-17	1917-18	1918-19	1919-20	1920-21	Revised 1921-22	Budget 1922-23
PART I.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	PART I.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Land Revenue	109	108	100	117	108	112	113	Direct demands on Revenue ..	35	36	39	43	50	46	48
Forest. (Excess over 10 lakhs under sandalwood shown in Part II.)	27	27	31	25	25	24	30	Palace	24	24	24	24	24	24	24
Excise	59	62	67	73	77	75	70	Civil Administration	28	31	33	49	40	40	34
Income and Miscellaneous Taxes ..	3	..	..	..	8	11	11	Protection	27	28	34	34	41	39	40
Stamps	12	12	13	16	16	16	16	Public Works	29	29	38	36	37	31	24
Registration	2	2	2	3	3	3	3	Moral and Material Development ..	34	39	52	50	61	53	50
Receipts of Service Department ..	8	9	10	11	11	9	9	Local Self Government	8	9	6	6	6	3	..
								Army and Defence	50	50	53	59	61	55	..
								Famine Insurance	5	5	5	5	..	..	..
								Miscellaneous Railway and Electric Expenditure	1	1	1	1	1	..	..
Total	220	220	223	245	248	250	252	Total	241	252	285	307	321	291	..
Deficit	21	32	62	62	73	41	24	Surplus	..	..	..	..	..	..	..
	241	252	285	307	321	291	276		241	252	285	307	321	291	..
PART II.								PART II.							
Forest (sandalwood in excess of 10 lakhs)	18	18	1	17	7	..	..	Charges against Mining Revenue ..	2	2	2	2	0	2	1
Assigned Tract Revenue	10	..	9	..	..	..	..	Surplus	44	32	23	27	..	13	..
Mining Revenue	18	16	15	12	15	15	13		46	34	25	29	22	15	13
Total	46	34	25	29	22	15	13		10	11	11	15	21	44	54
PART III.								PART III.							
Interest	8	14	10	13	11	11	9	Interest on Loans and Sinking Fund.	10	11	11	15	21	44	54
Railways (Net)	11	14	15	18	11	8	10		10	11	11	15	21	44	54
K. R. S. and Electrical	16	18	16	12	17	24	27	Total	33	61	47	39	43	44	54
Sandal Oil Factories	3	15	6	4	4	..	1	Surplus	23	50	36	24	22	..	..
K. G. F. Water Supply	1	..	..	..	..	..	..		33	61	47	39	43	44	54
Industrial Works	..	..	..	..	..	2	..	Total Expenditure	253	265	298	324	344	337	332
Total	33	61	47	39	43	41	45	Surplus	46	50	..	..	..	..	..
Deficit	..	..	..	..	..	3	9	Total	299	315	298	324	344	337	332
	33	61	47	39	43	44	54		299	315	298	324	344	337	332
Total Revenue	299	315	295	313	313	306	310								
Deficit	..	..	3	11	31	31	22								
Total	299	315	298	324	344	337	332								

Industrial Development Schemes and also for Irrigation Capital Works which are of great importance in the Mysore State. We have a very large number of major and minor tanks on which the agricultural prosperity of the country greatly depends, and which require restoration and improvement. There is besides the High Level Canal part of the Krishnarajasagara project, which it should be our object to develop if possible.

37. To bring about the improvement required for reducing the finances of all the three parts to order under the scheme outlined above, it is necessary to show a total betterment of our financial condition by about Rs. 56 lakhs per annum, and this, with steady efforts, may, in my opinion, be effected in the course of the next three years if a financial policy, somewhat on the lines indicated below, is followed.

Policy for the Next Three Years.

38. Taking Part I of the Financial Statement according to the grouping suggested above, you will observe from another statement which follows and which I had prepared to indicate the scheme of improvement in the course of the next three years, that we should direct our efforts to secure by the end of this period an increase of about Rs. 25 lakhs over the total of Rs. 252 lakhs which is the budget estimate of 1922-23 in this group. Under Land Revenue I estimate for an increase of Rs. 10 lakhs by the introduction of re-settlement which is overdue in respect of 23 taluks, the quicker disposal of darkhasts and the grant for cultivation of large extents of land made available from Amrut Mahal Kavals, and date groves. According to the programme now fixed by Government, it is expected that the re-settlements in all the overdue cases will be completed by 1926-27 and an extent of 250,000 acres might also with special efforts, be given out for cultivation. Making a reasonable estimate of the increase in assessment due to these factors as well as to a quicker disposal of pending darkhasts numbering over 9,000 in respect of an aggregate area of about 96,000 acres, it may be possible to increase the total Land Revenue demand, including the Irrigation Revenue and items of miscellaneous revenue for which the Land Revenue Department is responsible, up to Rs. 123 lakhs. Under Forests my estimate of improvement in three years is about Rs. 3 lakhs making a total of Rs. 33 lakhs which includes

a moderate estimate of Rs. 10 lakhs under sandalwood. Under Excise I have not estimated any increase, and the utmost that may be expected is that it will maintain its present level. Under Income and Miscellaneous Taxes I estimate an improvement of Rs. 3 lakhs in three years and under Stamps and Registration an improvement of Rs. 6 lakhs and I have also taken into account a general improvement, under all other heads by better management of our resources, of Rs. 3 lakhs. These together show a general improvement of Rs. 25 lakhs over the budget estimate of 1922-23. Considering the growth of revenue in past years and the special efforts that have now to be made in all the revenue-producing departments for improving the revenue position, I consider that the estimate of Rs. 25 lakhs' increase in three years is possible. Comparing the actual figures of 1916-17 and the budget estimate of 1922-23 there has been an increase of Rs. 32 lakhs in six years of which no less than Rs. 11 lakhs are contributed by Excise, and Land Revenue did not show the advance that it might have shown had the re-settlements been introduced in proper time. Under Part II, the only item I have taken is the Mining Revenue in respect of which I have retained the figure of Rs. 13 lakhs. Under Part III,—revenue from financial investments and productive works,—I have shown an advance of Rs. 3 lakhs from net revenue under Railways, Rs. 6 lakhs under Krishnarajasagara and Electric Works, Rs. 1 lakh under Sandal Oil Factories, and added Rs. 3 lakhs under Iron Works—a net improvement of Rs. 13 lakhs compared to the budget estimates of the next year. I have not taken into consideration the receipts under the surplus revenues of the Assigned Tract which may be kept untouched as a special reserve for capital expenditure.

39. Taking the expenditure side, I have indicated a refrenchment, under the first part of the account by Rs. 7 lakhs in the course of the next three years, and provided for a sum of Rs. 5 lakhs under Famine Insurance Fund and another Rs. 3½ lakhs for Special Reserve for non-recurring expenditure. The account under Part I shows a nominal surplus of half a lakh and in Part II, deducting the charge against Mining Revenue, there is a balance of Rs. 11 lakhs which is set aside for the Capitalisation Fund. Going to Part III you will see that the interest on loans of all kinds and Sinking Fund to the extent of Rs. 54 lakhs have to be fully provided for, and it is also necessary to provide a reserve for industrial development to the extent of

FINANCIAL FORECAST FOR THE NEXT TRIENNium.

(In Lakhs of Rupees).

Revenue	Budget 1922-23	Improvements to be secured in 3 years	Position at end of 3 years	Expenditure	Budget 1922-23	Improvements to be secured in 3 years	Position at end of 3 years
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PART I.

NORMAL REVENUE				SERVICE EXPENDITURE			
Land Revenue	113	+10	123	Direct demands on revenue ..	48		
Forest	30	+ 3	33	Palace	24		
Excise	70	..	70	Civil Administration ..	34		
Income and Miscellaneous Taxes ..	11	+ 3	14	Protection	40		
Stamps	16	+ 6	22	Public Works	23*		
Registration	3	..	3	Moral and Material Development ..	50		
Receipts of Service Depts. ..	9	..	9	Local Self-Government ..	3		
Improvements under other heads ..		+ 3	3	Army and Defence ..	53		
				Reduction in Expenditure ..	..	- 7	
	252	+ 25	277		275	- 7	268
				Famine Insurance Fund ..		+ 5	5
				Special Reserve for Non-recurring Expenditure ..		+ 3½	3½
	252	+ 25	277				
Deficit	23	..	..	Surplus	..	..	276½
							½
	275	..	277	Total ..	275	..	277

PART II.

UNCERTAIN REVENUE AND RECEIPTS OF CAPITAL NATURE							
Mining Revenue	13	..	13	Charges against Mining Revenue Surplus (Mining Revenue Capitalisation Fund) ..	2	..	2
	13	..	13		11	..	11
					13	..	13

PART III.

REVENUE FROM FINANCIAL INVESTMENTS, AND PRODUCTIVE WORKS.							
Interest	9	..	9	Interest on Loans and Sinking Fund ..	54	..	54
Railways (Net) ..	10	+ 3	13	Deduct Contribution from Sterling Railway Loan Sinking Fund ..	..	-11	-11
K. R. S. and Electrical ..	27	+ 6	33				
Sandal Oil Factory ..	- 1	+ 1	..				
Iron Works		+ 3	3		54	-11	43
Total ..	45	+13	58	Industrial Development Reserve Irrigation Capital ..		+ 1½	1½
Deficit	9	..	..			+13½	13½
Total ..	54	..	58	Total ..	54	..	58
Total Revenue ..	310	..	348				
Deficit	21	..	..	Surplus	331	..	347½
					..	..	½
GRAND TOTAL ..	331	..	348	GRAND TOTAL ..	331	..	348

a lakh and a half, and also Irrigation Capital of Rs. 13½ lakhs. Making provision for all the future liabilities on account of productive works, Sinking Fund, and Interest charges, as well as the reserves necessary to maintain financial stability and provide for future emergencies you will see that the total expenditure in three years will come to Rs. 69 lakhs against the budget estimate of Rs. 54 lakhs which makes no provision for reserves. As against these Rs. 69 lakhs I have taken into account a credit of Rs. 11 lakhs per annum by way of contribution from the Railway Sterling Loan Sinking Fund. The money is available and it is necessary to make the best possible use of it. The loan is terminable in 1936 only at the option of the State and it is desirable to utilise the Sinking Fund holdings to meet our liabilities in respect of short-term loans falling due earlier and carrying a higher rate of interest. Without the aid of this fund it does not seem possible to balance Part III. The total improvement to be aimed at in the three years will thus be Rs. 56 lakhs as already stated, and the details are given below:—

Increase of Revenue ..	Rs. 38 lakhs
Reduction of Expenditure ..	„ 7 „
Reduction of Contribution to Sinking Fund ..	„ 11 „
Total ..	„ 56

40. In the above scheme of separation of Productive Works Finance from General Finance, no provision has been made on account of the depreciation of Railways. But the next year's budget estimate provides for renewals and replacements at a cost of about Rs. 4 lakhs and this may be taken for the present as contribution towards the Railway Depreciation Fund.

41. In fixing the scale of expenditure under normal service heads there is no provision for any expansion. The future outlook on this basis is no doubt gloomy for no administration can live efficiently without some margin or scope for development, especially when it is forced to carry on at the sacrifice of efficiency with reduced grants in almost every department owing to retrenchments. The position however is sufficiently serious to justify such sacrifice.

42. In the above paragraphs I have attempted to indicate the rough outlines of a scheme which, if followed, may bring about the restoration of financial

equilibrium. I shall be glad if in the course of your discussions on the budget estimates you will carefully consider the scheme and help Government with your advice. One thing is certain and that is the absolute necessity, in the immediate future, of separating normal revenue from the uncertain revenues and revenues from financial investments and productive works, as well as service expenditure from other special expenditure that should legitimately be debited to the other groups. On this basis alone which, in fact, logically extends the principle of separation recommended by the Acworth Committee, can the finances in the various groups be put on a self-supporting basis. Any excess of income over expenditure, when the situation improves, will then become available for improvement of administration. Great sacrifices will be needed to achieve these results and even then with the large demands on account of our capital works such as, Railways and Hydro-Electric Works, and the additional interest charges involved, our position will not for many years to come be free from anxiety.

43. With a view to enable you to understand the exact position regarding our Railways and other permanent assets of the State in the shape of productive works and industrial concerns, I propose to take you hurriedly over the figures relating to (1) Railway Finance, (2) Krishnarajasagara and the Cauvery Power Scheme, (3) Bhadravati Iron Works, (4) Sandal Oil Factories, (5) Other Industrial concerns.

Railway Finance.

44. At the end of the Dewanship of Sir M. Visvesvaraya in 1918, the total investments on the Mysore State Railways including Iron Tramways came to Rs. 400 lakhs. An additional sum of Rs. 119 lakhs was invested during my predecessor's time, the major portion of which went to the Mysore-Arsikere Railway and the Iron Tramways and for provision of rolling-stock. It has since been found necessary owing to other urgent demands of larger projects to stop the construction of the Nanjangud-Chamarajnagar and Shimoga-Arasalu Railways. It may be of interest to you to learn that the total investment up to date on account of Railways is Rs. 519 lakhs including Rs. 17 lakhs contributed by the Chickballapur Light Railway and the Kolar District Railway. The net receipts of our lines worked by the Madras and Southern Mahratta Railway Company have

practically paid interest at 4 per cent and this is no small achievement. The other Railways are not yet paying their charges in full, but no new line can be expected to pay in the initial stages. In 1918, Government decided to spend Rs. 20 lakhs per annum during the next five years on railway construction, in the expectation that this amount could be met from reserves. As all the balances both under reserves as well as under securities were exhausted, the railway construction programme sanctioned could not be continued without heavy borrowing, and then the demands of the Iron Works Tramways further crippled the available resources for the construction of railway lines. The result was that the schemes had to be postponed and heavy borrowing had to be resorted to to complete the programme of the tramways required for supplying fuel for the Bhadravati Iron Scheme. The budget estimates of gross receipts for all the railways put together come to roughly Rs. 76 lakhs and the net receipts to only Rs. 17½ lakhs, Rs. 58½ lakhs representing the working expenses, being 74 per cent of the gross receipts in respect of the lines worked by the Madras and Southern Mahratta Railway Company and 80 per cent in respect of State-worked lines.

45. The above particulars relating to our railway finance need not cause anxiety or concern. The State has now over 400 miles of open lines owned by them under their management besides the 275½ miles worked for them by the Madras and Southern Mahratta Railway Company, and they are a valuable asset representing a sum of about five crores; but unfortunately owing to war conditions renewals and replacements have had to be postponed with the result that a very high level of expenditure has to be maintained for some years to come causing a reduction in the net receipts. I am aware of the great public dissatisfaction that exists in regard to the administration of the Railway Department in the passenger and chiefly in the goods traffic. Our railways have been considerably handicapped owing to want of rolling-stock and engines to meet the growing traffic and the permanent way also, specially on the Mysore-Bangalore section, requires urgent renewal involving heavy capital outlay for some years. Consequently, even though we do not resume construction of new lines, we have, in order to keep our existing lines in proper working condition, to face a railway-capital expenditure of at least Rs. 15 lakhs a year. Unless therefore, we are able to reduce our working expenses it is not possible to set apart from the net receipts any very

large sum towards further development and expansion, as there is no reserve in hand from which expenditure thereon could be met. The problem of financing our railways therefore is one that presents considerable difficulties. Recently there was an International Congress held in Rome to discuss questions connected with railway administration in general, and the difficulties in having to meet the high working expenses which are now experienced all over the world have been investigated in detail and certain conclusions have been arrived at, with a view to reduce them wherever possible. The general impression regarding our railway establishments being extravagant requires to be carefully analysed but it must be said that in the case of new systems, working expenses are generally high at commencement and go down gradually as the systems develop and traffic increases. I can, however, promise the Assembly that the whole question of railway finance with a view to reduce working expenses will be carefully examined by me and as in my Forecast of financial policy I have taken credit for an improvement of Rs. 3 lakhs in the net revenue in the course of the next three years, you may rest assured that I shall endeavour to do everything possible to improve the service of railways and their revenue-yielding capacity.

Krishnarajasagara and Cauvery Power Scheme.

46. We have till the end of 1920-21 spent a sum of Rs. 308 lakhs on these two schemes and the financial results of both are shown in the following figures:—

CAPITAL OUTLAY TO END OF 1920-21.

Reservoir and Canals therefrom ..	165.09 lakhs
Cauvery Power Works ..	142.75 „
Total ..	307.84 „

GROSS REVENUE IN 1920-21.

From Irrigation ..	18 lakhs
From Power ..	30.22 „
Total ..	30.40 „

REVENUE EXPENDITURE.

For Irrigation including Reservoir ..	42 lakhs
For Power Works ..	12.54 „
Total ..	12.96 „
Net Revenue ..	17.44 „

47. One of the references made to the Committee appointed by Government last year to go into the question of future policy in regard to the two schemes was to investigate

“The relative merits of the Irrigation and the Power Schemes respectively under the first stage and the propriety of debiting the entire cost of the first stage of the scheme to the Cauvery Power Works.”

48. The Committee has presented its report which is under consideration. In the meantime there can be no doubt that Krishnarajasagara Works have to be pushed on to completion up to a certain stage, which is obligatory for us to reach in the interests not only of the safety of the works but also of the main object for which they have been constructed. According to the Committee's estimate, it will require another sum of Rs. 37 lakhs to reach that stage and they have advocated that this should be done within the next four years. This involves a provision of about Rs. 10 lakhs a year which, in the present circumstances, it may not be possible for the State to provide. It is therefore a matter for consideration whether the Cauvery Power Scheme and the Krishnarajasagara should not be combined and whether the receipts and profits of the Cauvery Power Scheme should not at least in part be utilised to finance, during the lean years, the Krishnarajasagara up to its final stage. The gross revenue from the Cauvery Power Scheme when the second stage of the sixth installation is completed is expected to reach the high figure of Rs. 53 lakhs per annum and I have in my Forecast taken credit for an increase of Rs. 6 lakhs during the next three years on account of net revenue of the combined project. The question of husbanding the resources of both these capital works to the best possible advantage and of pursuing a definite policy for development in the future has to be settled without any further loss of time. These questions are now engaging the earnest consideration of Government and I hope soon to publish for general information the report of the Committee as well as the decision of Government in the matter.

Bhadravati Iron Scheme.

49. I am aware there is a considerable amount of public feeling, akin almost to alarm, that the Bhadravati Iron Scheme is causing a serious drain on the resources of the State and is not likely to prove profitable.

of December 1921 show that, making a provision of Rs. 2.22 lakhs on account of depreciation on plant, buildings, etc., the net profits of the factories by the sale of oil during the past 5½ years amounted to Rs. 23.17 lakhs. Making allowance for a sum of Rs. 7.92 lakhs on account of interest on the fixed and floating capitals, there was a net profit of Rs. 15.24 lakhs mainly due to the high prices the oil commanded during the major portion of this period. It may be of interest to you to know that while during the five years prior to the starting of the factory, the revenue realised by the Forest Department was Rs. 88.89 lakhs for a total quantity of 11,741 tons sold by auction, the Department realised a sum of Rs. 97.70 lakhs for 6,249 tons supplied to the factories during the period of 5½ years referred to above.

54. For the past a year and a half however, owing to disorganisation of the continental markets which necessitated a substantial reduction in the price, the sales of sandalwood oil have not been brisk in spite of such reduction, and it was accordingly considered desirable to suspend the working of the Mysore Factory for some time, and at present only the factory at Bangalore is operating. But experience has shown that taking all facts into consideration, it is desirable to distil wood in the interests of revenue and Government therefore propose to continue the existing arrangement.

55. The market for oil has shown signs of revival in the past few months and it is anticipated that a large part of the old stock will be disposed of in the next year in addition to the quantity manufactured in that year. The rate at which the factory paid the Forest Department for previous supplies of sandalwood, has proved to be higher than could be realised through the price of oil and this explains the shortage of Rs. 90,000 shown in the next year's budget.

Other Industrial Concerns.

56. The industrial concerns under the control of the Industries and Commerce Department are—

- (1) The Soap Factory,
- (2) The Central Industrial Workshop,
- (3) The Metal Factory,
- (4) The Art Workshop,
- (5) The Weaving Factory, and
- (6) The Arts and Crafts Depôt.

Some of these were started as pioneer concerns while others were established partly for training and demonstration purposes and partly as commercial concerns. Of the concerns mentioned above, the Metal Factory has since been sold to a private Syndicate and the entire capital outlay thereon of Rs. 1,56,500 has been recouped. During the period the factory was managed by the Department, owing to the abnormal conditions prevailing during the War and heavy drop in prices there was a loss in working it. But the fact that it attracted private capitalists when it was offered for sale shows that the concern is capable of being worked on a profit-earning basis.

57. The capital outlay on the Soap Factory is Rs. 71,000 and the concern has on the whole, worked at a profit. It is under contemplation to transfer this factory also to private enterprise.

58. The capital outlay on the other concerns is as follows :—

	Rs.
Central Industrial Workshop ..	2,93,000
Art Workshop ..	29,000
Weaving Factory ..	36,000
Arts and Crafts Depôt ..	2,500

59. The working of these concerns has resulted in a loss of about Rs. 2 lakhs which will be written off in the current year. It is proposed to have the assets of the concerns revalued with a view to enable them to work under conditions making for financial success. Considering the very useful work these concerns have done in the way of demonstrating improved methods and training people, it seems desirable to continue them and work them on more efficient and strictly commercial lines in future.

Conclusion.

60. It will be seen that, with the improvement that can possibly be aimed at both by increasing revenue and reducing expenditure, very little workable margin is left for any measure of administration however important or urgent which involves additional expenditure; and this is a most distressing position from which we must make every endeavour to extricate ourselves as soon as possible. The scheme of education finance upon which the resolution of Government on the Education Memorandum was practically based will be carefully re-examined at a very

early date in view of the difficulties recently experienced, and if the additional resources therein indicated are not easily forthcoming, it will be necessary to readjust the distribution of service expenditure in such a manner that the educational reforms can be pushed through without further loss of time. I have every hope that within the limits of the financial forecast indicated by me, it may be possible, with the aid of the revenue that may be derived from educational cess, the mohatarta and local fund general, or any portion of it that may be resumed, to carry out the programme already chalked out. At all events, you will realise that our position at the present moment is beset with serious difficulties. Questions relating to the military obligations of the State with the Government of India, and the items of revenue like customs which though paid by the people of Mysore go to that Government, require consideration. You may rest assured that these and other allied questions are receiving and will continue to receive the earnest attention of Government. I sincerely trust that our representations in these matters will receive the just and equitable consideration that is due to them. May I express the hope that before we disperse from the present session, we shall have clearer opinions regarding the financial situation and go away with a definite resolve to make every endeavour so far as it lies in our power to restore the financial equilibrium? I hope also that nothing that I may have said will create any panic or on the other hand lull the public mind into a sense of false security. Both the extreme views are to be deprecated. For my part, I can say that in spite of the depressing factors that now threaten to hamper the administration, I shall endeavour to bring to bear on my work a spirit of robust optimism, and to carry the State further forward in the path of progress and prosperity.

Gentlemen I will not detain you any longer and we shall now proceed to the business of the session.

A. R. BANERJI,
Dewan of Mysore.